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An Intelligent way to stay informed about the mortgage industry

Home free – Six ways to pay your mortgage down faster

It's smart to speed up the process. If you have a 25-year mortgage for \$300,000 at an average rate of 5.75 per cent, you'll pay \$262,500 in interest. Here are six ways to pay off your mortgage in record time.

1. Buy what you can afford

Even if you're pre-approved for a big mortgage, look for a less expensive home. You'll save on interest and won't have to rely on your line of credit to make ends meet. Never let your combined debts (mortgage, car loan, student loan, credit cards, etc.) exceed 40 per cent of your gross income.

2. Get a mortgage broker

Yes, your bank should repay your loyalty with its best rates, but that isn't going to fly with its shareholders. A mortgage broker will shop around to get you the best rate available, and you don't have to pay for their services if your mortgage is with a major lender (brokers are paid by banks and credit unions, but are still impartial). You'll save up to 1.5 per cent over posted rates. On the mortgage mentioned above, you'd save more than \$26,000 in interest over 25 years.

3. Pay more often

Pay your mortgage every two weeks rather than monthly. Take our sample mortgage: if you divide the monthly payment of \$1,875 in half and make a payment of \$938 every two weeks, your mortgage will disappear four years earlier – saving you \$48,000.

4. Shorten your schedule

You can achieve a similar effect by shortening your amortization schedule. If you can afford to, reduce your schedule from 25 to 15 years. Your biweekly payments would then increase to \$1,140 (still using our sample mortgage above), resulting in savings of \$116,600 that should build a very healthy retirement savings fund.

5. Celebrate your anniversary

Major banks and lending institutions allow you to pay at least an additional 10 per cent of your mortgage on your mortgage anniversary date, so even if you do nothing else, use your tax refund to top up your payments. The average tax filer received about \$1,100 last year – if you did nothing but apply that to the sample mortgage every year, you'd own your home eight months early and save about \$30,400.

6. Try an open rate or variable rate

Once you've paid off at least 25 per cent of the value of your home, consider a variable-rate mortgage, which changes with the prime lending rate. You're exposed to the risk of higher rates, but research has shown you will still save significantly.

You may not be able to afford any or all of these strategies right now – or your current mortgage agreement may not be able to accommodate them. But add them to your financial to-do list and implement them when you can. You'll be "free" sooner.



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